

Add the Managed Audit Program authority to the following Special Taxes and Fees programs: Motor Vehicle Fuel Tax Law, Use Fuel Tax Law, Cigarette and Tobacco Products Tax Law, Alcoholic Beverage Tax Law, Energy Resources Surcharge Law, Emergency Telephone Users Surcharge Law, Hazardous Substances Tax Law, Integrated Waste Management Fee Law, Oil Spill Response, Prevention, and Administration Fees Law, Underground Storage Tank Maintenance Fee Law, Fee Collection Procedures Law, and Diesel Fuel Tax Law.

Source: Property and Special Taxes Department

Existing Law. Under existing law,¹ the Board of Equalization (BOE) is authorized to examine the books and records of any taxpayer or feepayer (taxpayer) to determine the correct tax or fee (tax) liability under the law. The authority is granted in order to verify the accuracy of any return made, or, if no return is made by the taxpayer, to ascertain and determine the amount required to be paid.

Under existing Sales and Use Tax Law,² the BOE is authorized to utilize a Managed Audit Program (MAP) in which a taxpayer can perform an audit of their own books and records, with BOE guidance, in order to determine tax deficiencies. In return for performing the managed audit, the taxpayer is liable for only one-half of the interest usually imposed under current law. Taxpayer's participation in MAP is entirely voluntary.

Managed audits are essentially self-audits. Under the existing MAP, the BOE is authorized to determine which taxpayer accounts are eligible to participate in a MAP and to enter into MAP Participation Agreements with eligible taxpayers. If taxpayers are eligible, the auditor provides them with written and oral instructions to enable them to perform the audit verification and prepare the working paper schedules necessary to complete a particular portion of the audit. Taxpayers are considered candidates for a managed audit if they meet the following criteria:

- They have few or no statutory exemptions;
- They have a single or small number of clearly defined taxability issues;
- They agree to participate in the MAP; and
- They have the resources to comply with the managed audit instructions provided by the BOE.

The MAP is advantageous for both taxpayers and the BOE. For example managed audits:

¹Revenue and Taxation Code Sections 8253 (Motor Vehicle Fuel Tax Law), 9254 (Use Fuel Tax Law), 30454 (Cigarette and Tobacco Products Tax Law), 32453 (Alcoholic Beverage Tax Law), 40174 (Energy Resources Surcharge Law), 41130 (Emergency Telephone Users Surcharge Law), 43502 (Hazardous Substances Tax Law), 45852 (Integrated Waste Management Fee Law), 46603 (Oil Spill Response, Prevention, and Administration Fees Law), 50153 (Underground Storage Tank Maintenance Fee Law), 55302 (Fee Collection Procedures Law), and 60606 (Diesel Fuel Tax Law).

² Article 2.5 (commencing with Section 7076) of Chapter 8 of Part 1 of Division 2 of the Sales and Use Tax Law.

- Resolve questions about taxability during, rather than after, the audit process;
- Allow the BOE to reallocate audit resources to other audits or other revenue generating activities;
- Reduce the number of protested audits;
- Decrease disruption of a taxpayer's regular business activities;
- Promote an ongoing cooperative relationship between the taxpayer and the BOE;
- Educate taxpayers regarding how tax applies to their business transactions, which increases accurate reporting; and,
- Offer participating taxpayers a 50% interest "discount" on any tax liability disclosed as a result of the managed audit. MAP audits that result in a credit or refund are computed using the standard running balance method. Therefore, if the audit has both debit and credit periods, the one-half interest rate applies for debit periods while the full statutory credit interest rate applies for credit periods.

Despite its advantages, MAP is authorized only under the Sales and Use Tax Law; existing law does not provide for a MAP under any of the BOE's special taxes and fees programs.

This Proposal. This proposal extends the MAP authority that exists under the Sales and Use Tax program to the BOE's Special Taxes and Fees programs. A number of taxpayers are required to hold both a seller's permit and one or more special taxes and fees permits. For example, a winery's retail sales are subject to sales tax and its import of wines is subject to the alcoholic beverage tax. Tire retailers make sales that are subject to sales tax and the California tire fee. Although taxpayers participating in a sales tax managed audit may also wish to participate in a special taxes managed audit, they cannot do so due to lack of statutory authority.

Special taxes account holders have transactions that are equally appropriate for a managed audit review. The tax issues related to their business operations are straightforward and many have the resources necessary to perform the audit work. The following examples illustrate special taxes and fees transactions appropriate for a managed audit:

- A distilled spirits taxpayer claims nontaxable sales for resale to other distilled spirits taxpayers. The taxpayer could verify and document that its customers held valid distilled spirits permits with the BOE.
- Electronics retailers who sell computer monitors, laptop computers, and televisions are required to hold a covered electronic waste recycling (eWaste) fee permit in addition to their seller's permit. These retailers could review their claimed exempt sales for resale and sales delivered outside California. The documentation required to support an exemption from sales tax is also required to support an exemption from the eWaste fee.

- Cigarette and tobacco products distributors who also sell at retail are required to hold a Cigarette and Tobacco Products Retailer's License in addition to a seller's permit. Some of these distributors claim only a few exemptions that are straightforward to verify, such as sales to a common carrier engaged in interstate or foreign passenger service or sales to the United States military exchanges, commissaries, or ship stores.

This proposal would add a new audit tool to the special taxes and fees programs consistent with the sales and use tax program. Eligible taxpayers would receive the same benefits enjoyed by sales tax managed audit participants.

Background. The original MAP was added by BOE-sponsored Senate Bill 1104 (Ch. 686, Stats. 1997, effective January 1, 1998) and contained a sunset date of January 1, 2001. In 2000, the BOE sponsored legislation (Assembly Bill 2898, Ch. 1052) to extend the sunset date of the MAP by two years, to January 1, 2003. There was no MAP in 2003. AB 1043 (Ch. 87, Stats. 2003, effective January 1, 2004) reauthorized the BOE to utilize the MAP until January 1, 2009. In 2008, the BOE again sponsored legislation (AB 3079, Ch. 306) that eliminated the January 1, 2009 sunset date thereby making the MAP permanent.

Revenue Impact. This proposal would result in an annual net revenue gain of approximately \$277,214.

This revenue estimate uses historical sales tax MAP data for the period of July 1, 2008 through June 30, 2013:

Average hours saved per sales tax MAP audit	201
Percentage of sales tax MAP audits to total audits	0.0048%
Average interest forgiven per sales tax MAP audits for FY 2012-13	\$ 96,120 ³

Estimated Special Taxes Revenue Gain:

Total number of special taxes audits for FY 2012-13	902
Estimated annual number of special taxes MAP audits [902 X 0.0048% (percentage of sales tax MAP audits to total audits)]	4
Total revenue derived from special taxes MAP audits (taxes, penalties, and interest)	\$45,309,323
Total number of special taxes audit hours for FY 2012-13	55,026
Tax change per hour for FY 2012-13 (\$45,309,323 / 55,026)	\$823
Estimated additional audit liability from redirecting audit resources (taxes, penalties, and interest) [201 (average sales	

³ \$96,120 [\$1,537,915 (total interest forgiven in MAP audits for FY 2012-13) / 16 (total MAP audits completed in FY 2012-13)]

tax audit hours saved) x 4 (estimated number of special taxes MAP audits) x \$823 (tax change per our)]	\$661,692
Estimated special taxes interest forgiven [\$96,120 (average sales tax interest forgiven) x 4 (estimated number of special taxes MAP audits)]	<u>\$384,479</u>
Estimated special taxes net revenue gain (\$661,692 - \$384,479)	<u><u>\$277,213</u></u>

Section 8258 of the Revenue and Taxation Code is added to read:

8258. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A taxpayer is not required to participate in the managed audit program.

Section 8258.1 of the Revenue and Taxation Code is added to read:

8258.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The taxpayer's business involves few or no statutory exemptions.

(b) The taxpayer's business involves a single or small number of clearly defined taxability issues.

(c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 8258.2 of the Revenue and Taxation Code is added to read:

8258.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions covered by the managed audit.

(C) The specific procedures that the taxpayer is to follow in determining any liability.

(D) The records to be reviewed by the taxpayer.

(E) The manner in which the types of transactions are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The taxpayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported tax liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 8258.3 of the Revenue and Taxation Code is added to read:

8258.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.

Section 9259 of the Revenue and Taxation Code is added to read:

9259. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A taxpayer is not required to participate in the managed audit program.

Section 9259.1 of the Revenue and Taxation Code is added to read:

9259.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The taxpayer's business involves few or no statutory exemptions.

(b) The taxpayer's business involves a single or small number of clearly defined taxability issues.

(c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 9259.2 of the Revenue and Taxation Code is added to read:

9259.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions covered by the managed audit.

(C) The specific procedures that the taxpayer is to follow in determining any liability.

(D) The records to be reviewed by the taxpayer.

(E) The manner in which the types of transactions are to be scheduled for review.

- (F) The time period for completion of the managed audit.
- (G) The time period for the payment of the liability and interest.
- (H) Any other criteria that the board may require for completion of the managed audit.
- (2) The taxpayer shall:
 - (A) Examine its books, records, and equipment to determine if it has any unreported tax liability for the audit period.
 - (B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).
 - (b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 9259.3 of the Revenue and Taxation Code is added to read:

9259.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.

Section 30457 of the Revenue and Taxation Code is added to read:

- 30457. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.
- (b) A taxpayer is not required to participate in the managed audit program.

Section 30457.1 of the Revenue and Taxation Code is added to read:

- 30457.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:
 - (a) The taxpayer's business involves few or no statutory exemptions.
 - (b) The taxpayer's business involves a single or small number of clearly defined taxability issues.
 - (c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.
 - (d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 30457.2 of the Revenue and Taxation Code is added to read:

30457.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions covered by the managed audit.

(C) The specific procedures that the taxpayer is to follow in determining any liability.

(D) The records to be reviewed by the taxpayer.

(E) The manner in which the types of transactions are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The taxpayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported tax liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 30457.3 of the Revenue and Taxation Code is added to read:

30457.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.

Section 32458 of the Revenue and Taxation Code is added to read:

32458. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A taxpayer is not required to participate in the managed audit program.

Section 32458.1 of the Revenue and Taxation Code is added to read:

32458.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The taxpayer's business involves few or no statutory exemptions.

(b) The taxpayer's business involves a single or small number of clearly defined taxability issues.

(c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 32458.2 of the Revenue and Taxation Code is added to read:

32458.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions covered by the managed audit.

(C) The specific procedures that the taxpayer is to follow in determining any liability.

(D) The records to be reviewed by the taxpayer.

(E) The manner in which the types of transactions are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The taxpayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported tax liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 32458.3 of the Revenue and Taxation Code is added to read:

32458.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.

Section 40192 of the Revenue and Taxation Code is added to read:

40192. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A taxpayer is not required to participate in the managed audit program.

Section 40192.1 of the Revenue and Taxation Code is added to read:

40192.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The taxpayer's business involves few or no statutory exemptions.

(b) The taxpayer's business involves a single or small number of clearly defined taxability issues.

(c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 40192.2 of the Revenue and Taxation Code is added to read:

40192.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions covered by the managed audit.

(C) The specific procedures that the taxpayer is to follow in determining any liability.

(D) The records to be reviewed by the taxpayer.

(E) The manner in which the types of transactions are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The taxpayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported tax liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 40192.3 of the Revenue and Taxation Code is added to read:

40192.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.

Section 41153 of the Revenue and Taxation Code is added to read:

41153. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A taxpayer is not required to participate in the managed audit program.

Section 41153.1 of the Revenue and Taxation Code is added to read:

41153.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The taxpayer's business involves few or no statutory exemptions.

(b) The taxpayer's business involves a single or small number of clearly defined taxability issues.

(c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 41153.2 of the Revenue and Taxation Code is added to read:

41153.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions covered by the managed audit.

(C) The specific procedures that the taxpayer is to follow in determining any liability.

(D) The records to be reviewed by the taxpayer.

(E) The manner in which the types of transactions are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The taxpayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported tax liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 41153.3 of the Revenue and Taxation Code is added to read:

41153.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would

otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.

Section 43507 of the Revenue and Taxation Code is added to read:

43507. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A taxpayer is not required to participate in the managed audit program.

Section 43507.1 of the Revenue and Taxation Code is added to read:

43507.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The taxpayer's business or activities involve few or no statutory exemptions.

(b) The taxpayer's business or activities involve a single or small number of clearly defined taxability or liability issues.

(c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 43507.2 of the Revenue and Taxation Code is added to read:

43507.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions or activities covered by the managed audit.

(C) The specific procedures that the taxpayer is to follow in determining any liability.

(D) The records to be reviewed by the taxpayer.

(E) The manner in which the types of transactions or activities are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The taxpayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 43507.3 of the Revenue and Taxation Code is added to read:

43507.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.

Section 45855.6 of the Revenue and Taxation Code is added to read:

45855.6. (a) The State Board of Equalization shall determine which fee payer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A fee payer is not required to participate in the managed audit program.

Section 45855.61 of the Revenue and Taxation Code is added to read:

45855.61. A fee payer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The fee payer's business or activities involve few or no statutory exemptions.

(b) The fee payer's business or activities involve a single or small number of clearly defined taxability or liability issues.

(c) The fee payer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The fee payer has the resources to comply with the managed audit instructions provided by the board.

Section 45855.62 of the Revenue and Taxation Code is added to read:

45855.62. (a) If the board selects a fee payer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions or activities covered by the managed audit.

(C) The specific procedures that the fee payer is to follow in determining any liability.

(D) The records to be reviewed by the fee payer.

(E) The manner in which the types of transactions or activities are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The fee payer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the fee payer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 45855.63 of the Revenue and Taxation Code is added to read:

45855.63. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the fee payer in a manner to be determined by the board under law.

Section 46607 of the Revenue and Taxation Code is added to read:

46607. (a) The State Board of Equalization shall determine which feepayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A feepayer is not required to participate in the managed audit program.

Section 46607.1 of the Revenue and Taxation Code is added to read:

46607.1. A feepayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The feepayer's business or activities involve few or no statutory exemptions.

(b) The feepayer's business or activities involve a single or small number of clearly defined taxability or liability issues.

(c) The feepayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The feepayer has the resources to comply with the managed audit instructions provided by the board.

Section 46607.2 of the Revenue and Taxation Code is added to read:

46607.2. (a) If the board selects a feepayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions or activities covered by the managed audit.

(C) The specific procedures that the feepayer is to follow in determining any liability.

(D) The records to be reviewed by the feepayer.

(E) The manner in which the types of transactions or activities are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The feepayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the feepayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 46607.3 of the Revenue and Taxation Code is added to read:

46607.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the feepayer in a manner to be determined by the board under law.

Section 50155.6 of the Revenue and Taxation Code is added to read:

50155.6. (a) The State Board of Equalization shall determine which fee payer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A fee payer is not required to participate in the managed audit program.

Section 50155.61 of the Revenue and Taxation Code is added to read:

50155.61. A fee payer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The fee payer's business or activities involve few or no statutory exemptions.

(b) The fee payer's business or activities involves a single or small number of clearly defined taxability or liability issues.

(c) The fee payer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The fee payer has the resources to comply with the managed audit instructions provided by the board.

Section 50155.62 of the Revenue and Taxation Code is added to read:

50155.62. (a) If the board selects a fee payer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions or activities covered by the managed audit.

(C) The specific procedures that the fee payer is to follow in determining any liability.

(D) The records to be reviewed by the fee payer.

(E) The manner in which the types of transactions or activities are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The fee payer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 50155.63 of the Revenue and Taxation Code is added to read:

50155.63. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the fee payer in a manner to be determined by the board under law.

Section 55306 of the Revenue and Taxation Code is added to read:

55306. (a) The State Board of Equalization shall determine which feepayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A feepayer is not required to participate in the managed audit program.

Section 55306.1 of the Revenue and Taxation Code is added to read:

55306.1. A feepayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

(a) The feepayer's business or activities involve few or no statutory exemptions.

(b) The feepayer's business or activities involve a single or small number of clearly defined taxability or liability issues.

(c) The feepayer is taxed pursuant to this part and agrees to participate in the managed audit program.

(d) The feepayer has the resources to comply with the managed audit instructions provided by the board.

Section 55306.2 of the Revenue and Taxation Code is added to read:

55306.2. (a) If the board selects a feepayer's account for a managed audit, all of the following apply:

(1) The board shall identify all of the following:

(A) The audit period covered by the managed audit.

(B) The types of transactions or activities covered by the managed audit.

(C) The specific procedures that the feepayer is to follow in determining any liability.

(D) The records to be reviewed by the feepayer.

(E) The manner in which the types of transactions or activities are to be scheduled for review.

(F) The time period for completion of the managed audit.

(G) The time period for the payment of the liability and interest.

(H) Any other criteria that the board may require for completion of the managed audit.

(2) The feepayer shall:

(A) Examine its books, records, and equipment to determine if it has any unreported liability for the audit period.

(B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).

(b) The information provided by the feepayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 55306.3 of the Revenue and Taxation Code is added to read:

55306.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the feepayer in a manner to be determined by the board under law.

Section 60611 of the Revenue and Taxation Code is added to read:

60611. (a) The State Board of Equalization shall determine which taxpayer's accounts are eligible for the managed audit program in a manner that is consistent with the efficient use of its auditing resources and the maximum effectiveness of the program.

(b) A taxpayer is not required to participate in the managed audit program.

Section 60611.1 of the Revenue and Taxation Code is added to read:

60611.1. A taxpayer's account is eligible for the managed audit program only if the taxpayer meets all of the following criteria:

- (a) The taxpayer's business involves few or no statutory exemptions.
- (b) The taxpayer's business involves a single or small number of clearly defined taxability issues.
- (c) The taxpayer is taxed pursuant to this part and agrees to participate in the managed audit program.
- (d) The taxpayer has the resources to comply with the managed audit instructions provided by the board.

Section 60611.2 of the Revenue and Taxation Code is added to read:

60611.2. (a) If the board selects a taxpayer's account for a managed audit, all of the following apply:

- (1) The board shall identify all of the following:
 - (A) The audit period covered by the managed audit.
 - (B) The types of transactions covered by the managed audit.
 - (C) The specific procedures that the taxpayer is to follow in determining any liability.
 - (D) The records to be reviewed by the taxpayer.
 - (E) The manner in which the types of transactions are to be scheduled for review.
 - (F) The time period for completion of the managed audit.
 - (G) The time period for the payment of the liability and interest.
 - (H) Any other criteria that the board may require for completion of the managed audit.
 - (2) The taxpayer shall:
 - (A) Examine its books, records, and equipment to determine if it has any unreported tax liability for the audit period.
 - (B) Make available to the board for verification all computations, books, records, and equipment examined pursuant to subparagraph (A).
- (b) The information provided by the taxpayer pursuant to paragraph (2) of subdivision (a) is the same information that is required for the completion of any other audit that the board may conduct.

Section 60611.3 of the Revenue and Taxation Code is added to read:

60611.3. Upon completion of the managed audit and verification by the board, interest on any unpaid liability shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period. Payment of the liabilities and interest shall be made within the time period specified by the board. If the requirements for the managed audit are not satisfied, the board may proceed to examine the records of the taxpayer in a manner to be determined by the board under law.